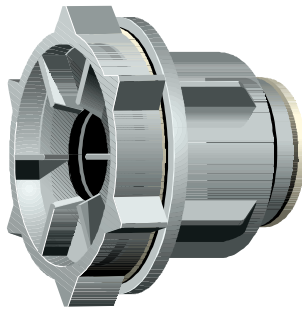


**EVALUATING THE PRICE OF
COMMERCIAL ITEMS

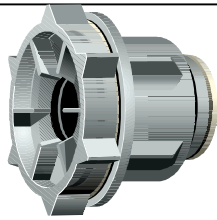
IN

A SOLE-SOURCE ENVIRONMENT**

**INFORMATION GUIDE
VOLUME 2**



JUNE 25, 1998



EVALUATING COMMERCIAL PRICES IN A SOLE SOURCE ENVIRONMENT

VOLUME 2

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COMMERCIAL PRACTICES – WHERE IS IT AND WHERE IS IT GOING?

In 1994, the Federal Acquisition Streamlining Act (FASA) was passed. FASA signaled a dramatic shift in the course of procurement policy for the Federal Government. It was the most far-reaching procurement reform in the last fifty years. The intent of the law is to maximize the acquisition and utilization of commercial items and to acquire those items in a manner that is similar to that used in the commercial marketplace.

The Deputy Under Secretary of Defense for Acquisition Reform and the Office of Federal Procurement Policy (OFPP) continues to lead efforts to facilitate and incorporate commercial practices throughout the Federal Government. This is taking place through constant communication, satellite broadcasts, training offered through the Defense Acquisition University and each of the respective services, on the job training, sharing of best practices and creation of acquisition processes that parallel commercial acquisition processes.

Commercial practices are overarching and effect every functional area within acquisition. When assessing requirements, the acquisition community must first conduct extensive market research to assess what is available in the commercial marketplace to meet the need with little or no adaptation. Then the acquisition community creates a winning acquisition and procurement strategy that gets these commercial items when they are needed for the most reasonable price.

The commercial practice strategies are beginning to work. Agency after agency has success stories. One example is the Defense Medical Logistics Standard Support System which is used to order every pharmaceutical, medical supply, and piece of medical equipment in DoD. Through adapting to commercial practices it: gives the ordering agents all current prices for over 300,000 commercial medical items from least expensive to most expensive; allows instant electronic ordering; tracks inventory and delivery; and electronically links to finance for payment. Another example is refuse collection for four bases in Colorado Springs. A small Government team went to hospitals and commercial organizations with multiple facilities to see how they manage refuse collection. This team consolidated the refuse collection of five bases, released a requirements driven Request for Proposal based upon the commercial practices they discovered and awarded on a “best value” basis. The results have been better service for a cheaper price. To attain results like these, it takes a commitment to try to use commercial practices whenever and wherever possible.

True implementation of commercial practices takes a cultural change. All of acquisition must move to a price-based, market-driven environment. Source selection must be made on a “best value” not “cheapest price” basis. And, agencies must look at their business processes, then reengineer those processes, to streamline acquisition and operating practices. This will be a never-ending process of mission identification, analysis, planning, implementation, measurement and results. Constant process improvement.

DEFINITION OF: “COMMERCIAL ITEMS” & “SOLE-SOURCE ACQUISITION”

What is a commercial item?

Commercial items are any item, other than real property that is of a type customarily used for non-governmental purposes and that :

- has been sold, leased or licensed to the general public;
- has been offered for sale, lease or licensed to the general public;
- has evolved from a commercial item that is sold or offered for sale – as a result of technological advancement, for example (even it is not yet available);
- requires either modifications or a type that is customarily available in the commercial marketplace or minor modifications for unique government purposes; or
- is any of the above.

Also included in this definition are government-unique items that are developed exclusively at public expense and sold to multiple state and local governments.

Commercial items procedures are the norm and the Government-unique procurement procedures are now the exception. The commerciality of an item is not determined on the basis of the specific item that is being offered. What matters is whether the requirement can be met by an item of a type that is available in the commercial marketplace. Thus, if market research determines that the government's requirement could be satisfied by an item of a type that has been sold, offered for sale, and so forth in the commercial marketplace, then the government requirement is, by definition, a requirement for a commercial item. As a result, any item that is offered to the government that can satisfy the requirements of the solicitation is a commercial item.

See the ODUSD(AR) Contract Pricing: What's the Right Price? Instruction Guide, Appendix I, Definition of a Commercial Item at: <http://www.acq.osd.mil/dau/arcc/feb25b.html>

What is sole-source acquisition?

"Sole source acquisition" means a contract for the purchase of supplies or services that is entered into or proposed to be entered into by an agency after soliciting and negotiating with only one source.

How can a commercial item be a sole-source acquisition?

An item can be offered and sold in substantial quantities in the commercial marketplace based upon established catalog or listed prices, and only be offered by one source because:

- Patents, data rights and copyrights. If a contractor uses their own funds to research and develop an item, a system or a process, they can apply for and receive a patent, retain exclusive data rights and own copyrights. The Government honors patents, data rights and copyrights resulting from private developments and limits its demands for such rights to those essential for Government purposes. In addition, the

Federal Acquisition Regulation (FAR) Part 6.302-1 recognizes the existence of limited rights in data, patent rights, copyrights, or secret processes; the control of basic raw material; or similar circumstances, as sole-source.

To see a matrix of Patent, Data Rights and Copyright FAR clauses go to Internet address:
<http://farsite.hill.af.mil/otcgi/Cgiwrap.bat?ACTION=Highlight&QUERY=%70%61%74%65%6E%74&OP=and&DB=0&SORTBY=%54%49%54%4C%45&SUBSET=SUBSET&FROM=1&SIZE=50&ITEM=30;>

- Only one responsible source and no other supplies or services will satisfy agency requirements. When the commercial item is required by a Government agency that is available from only one responsible source, or, for DOD, NASA, and the Coast Guard, from only one or a limited number of responsible sources, and no other type of supplies or services will satisfy agency requirements. Commercial items may also be deemed to be available only from the original source in the case of a follow-on contract, or, because of the continued development or production of a major system or highly specialized equipment. This applies when it is likely that award to any other source would result in substantial duplication of cost to the Government that is not expected to be recovered through competition;
- Unique capabilities. Unique supplies or services available from only one source;
- Specific make or model. When the agency head has determined in accordance with the agency's standardization program that only specified makes and models of technical equipment and parts will satisfy the agency's needs for additional units or replacement items, and only one source is available;
- Unusual and compelling urgency. If an agency's need for the supplies or services is of such an unusual and compelling urgency that the Government would be seriously injured unless the agency is permitted to award sole-source;
- Industrial mobilization requirements. Because of our rapidly changing world, commercial items are usually manufactured and supported for a pre-determined length of time. At the end of this time most sources stop producing, stop supporting and stop carrying inventory of commercial items. If the Government needs these critical items in the event of a national emergency, the Government may choose to contract sole-source to: (1) continue to maintain a production capacity; (2) retain employee skills needed to manufacture or support the critical commercial items; and/or (3) create or maintain the required domestic capability for production of critical supplies by limiting competition to items manufactured in the United States or the United States and Canada;
- International agreement(s). If the terms of an international agreement or a treaty between the United States and a foreign government or international organization, or the written directions of a foreign government reimbursing the agency for the cost of the acquisition of the supplies or services for such government requires the commercial item be supplied by one source;
- Requirement by statute. A statute may expressly authorize or require that the acquisition be made through another agency or from a specified source; or the agency's need is for a brand name commercial item for authorized resale. Such as,

Sole source awards under the 8(a) Program-15 U.S.C. 637 (see Subpart 19.8); or The Robert T. Stafford Disaster Relief and Emergency Assistance Act--42 U.S.C. 5150 (see Subpart 26.2);

- Public interest. When the agency head determines that it is not in the public interest in the particular acquisition concerned.

These above examples provide the definition and potential justification of using a sole-source acquisition for commercial products. Sole-source approval is still required, even though, the item is only available from one source.

MARKET RESEARCH ESSENTIAL TO EVALUATING SOLE-SOURCE COMMERCIAL ITEMS

Why conduct Market Research?

Market Research is required for all acquisitions and complete market research will identify specific commercial items that are only being offered by one source. The answer to the question: "Can the market place provide what we need?" will be, "Yes, but only from one source."

Whenever an item is only being offered by one source, further investigation is usually warranted to determine the special circumstances involving the item. Why? To answer important questions like:

Should this item be considered commercial? A commercial item is developed for a non-governmental purpose and is offered to the general public. If the item was developed for governmental purposes, but now is being offered to the general public, it may or may not be determined as a commercial item. This determination impacts the way the government will contract for the item (FAR Part 13 Contracting for Commercial Items versus FAR Part 15 Contracting by Negotiation) and the way the government will determine a "fair and reasonable price" (price analysis versus cost analysis).

Why is this commercial item a sole-source? A commercial item can be determined as sole source because: the source holds patents, data rights and/or copyrights; there is only one responsible source; the source is uniquely capable; requirement for a specific make or model; compelling urgency; industrial mobilization requirements; international agreements; required by law or it's in the public's best interest.

Is this commercial sole-source item one of a "family of products"? If the sole-source item is one of a "family of products" there will be greater economies of scale. For instance, if the sole-source item is just one product being produced on a manufacturing line then the manufacturer is more likely to invest in continuous process improvement of the line. This will improve the entire "family of products", including the sole-source items. However, if the item is not one of a "family of products", then, the customer usually has to initiate, and pay for, the constant process improvement. In addition, market pressures usually control the pricing of a "family of products". Market pressures are much less, or almost non-existent, if the commercial sole-source item is one of a kind being produced on its own separate manufacturing line.

How many of the commercial sole-source items are sold to the Government versus the general public? The amount of sales to the Government versus the amount of sales to the general public can be a critical element in deciding pricing and negotiation strategies. If the percent of sales to the Government is high, then the Government has strong leverage to negotiate "most favored customer prices" and/or request other than cost and pricing data (if additional information is

required). If the percent of sales to the Government is low, then, the marketing research focuses on understanding the circumstances surrounding the general public's leverage and compares the Government's price to that of the "most favored general public customer."

What is the source's pricing strategy for commercial items? Two strong factors drive the pricing of a commercial item.

- One is the source's assessment of what's the maximum price that the market will tolerate. This methodology is very prevalent when there is strong competition and tremendous market pressures. When the source is in a sole-source position, these market pressures are almost non-existent, therefore are not often used under these circumstances.
- Two, which is used most often when the commercial item is sole-source, is cost recovery plus maximum profit. Cost recovery includes adding a portion of the "up-front" non-recurring costs of research, design, development and start-up costs to the recurring costs of manufacturing, raw materials, labor, quality assessments, packaging, shipping for each commercial item over the projected life-cycle of the item [e.g. projected life cycle of a commercial item is 2 years, projected number of items to be sold over those two years is 24,000, non-recurring costs were \$200,000. and recurring costs are projected to be \$400,000 the cost of the item will be $\$200,000. (\text{non-recurring}) + \$400,000 (\text{recurring}) = \$600,000$ divided by the projected total number of commercial items 24,000 = \$25.00 each. Profit is then added to this estimated cost of \$25.00 (cost for non-recurring and recurring) + \$5.00 (profit) = for a total price of \$30.00].

Techniques of Market Research

The FAR suggests a variety of techniques for conducting market research. These include the following:

- Contacting experts for information on specific market capability;
- Reviewing the results of recent, relevant market research;
- Publishing requests for information (RFIs) in appropriate journals, magazines other publications; Internet web sites, and FACNET;
- Querying databases or other online sources of information;
- Obtaining sources' lists of similar items from other organizations;
- Reviewing catalogs and other product literature.

Appendix A lists a few Internet-based tools to assist you with marketing research.

Who Conducts the Market Research?

An integrated process team (IPT) or specific market research teams best effect market research. Every functional expert within the IPT, or market research team, has a responsibility to contribute to market research. Here are some ways IPT members can contribute:

Users. Forecast of the number of systems, products and/or processes drive initial procurement of commercial items and formulate the long-term sustainment and provisioning for the entire life cycle. If large numbers of commercial items are going to be required for a long length of time, the Government can use this as leverage to “lock-in” favorable pricing of commercial items throughout the life of the program, product and/or process, plan for “modernization through spares”, negotiate terms for optimal management of inventory and distribution. Market research can provide insight into the total life cycle requirements for similar systems, products and/or processes using similar, or the same, commercial items. Using the information gathered from this research, the users could do a comparative and parametric analysis to more accurately forecast total commercial item requirements.

Program/Project Managers. These individuals usually lead the IPT and are responsible for the final approval of all recommendations made by the team. Since the Program/Project Manager is responsible for creating the Program Management Plan, the Acquisition Strategy Plan (the overarching plan that involves every contract and procurement for the program/project), and Source Selection Plan, they also make the decision on the marketing research plan. The composition of the market research team is critical to its success, since team members can significantly influence the scope of research activities and their results. The Program/Project Manager can also make the determination to outsource or allow another agency to conduct the research.

Systems Engineers/Design Engineers. Engineers make the decisions that drive approximately 80% of the total cost of ownership, they also select the commercial items that are going to become part of, or, be needed to support a system, product and/or process, etc. The Systems Engineering team usually designs, selects, and/or approves the use of a commercial item that is only available from a sole-source, or, a very limited number of sources that may eventually evolve into a sole-source. Before the Systems Engineers makes this decision, he/she should conduct extensive marketing research to identify the full array of commercial items that may meet the requirement and try to select an item that will be commercially available from a multitude of sources. In addition, the Engineers should consider the short and long-term requirements of this item to include Value Engineering, product/process improvement; source’s projected life cycle of the commercial item and commitment to its support and inventory; etc. Only after understanding all of the options available, should the Engineers make the selection of the commercial item.

Contract Specialists. The Contract Specialist receives intensive training on market research within every contracting class and at every functional business meeting. This individual works “hand-in-hand” with the Program/Project Manager on the organization and planning of the marketing research. The Contract

Specialist usually works closely with the rest of the IPT in an effort to determine whether the commercial marketplace offers products that satisfy the agency's essential requirements, or that could satisfy them with some trade-offs or modifications. The Contract Specialist is also the individual who's in-depth understanding of the commercial item, and the market environment, is essential to evaluating the price of the Commercial item, establishes it as "fair and reasonable", works with the rest of the IPT to determine "best value", then, negotiating the most favorable terms and conditions for the Government.

Program Budget and Cost Analysts. Many excellent analytical tools are available to forecast total cost of ownership, and specifically, the use of a competitively offered commercial item verses a commercial item in a sole-source environment. The Program Budget and Cost Analysts are outstanding contributors to the internal DOD market research effort to determine if other Government agencies are already ordering, and using, the sole-source commercial item. If so, other Government agencies can provide input on the quality of the item, the market environment, pricing strategies used, unique aspects of the commercial item or source's pricing strategy. These analysts are also excellent resources to conduct historical analysis on the same or similar commercial items. They have access to other program/project's budget verses actual data and know how to assess what happened. They are an excellent "line of defense" to prevent the selection of a commercial item from a sole-source that did not perform as stated and/or experienced unreasonable price growth.

Logistics Specialists. The greatest savings on commercial spare parts can be accomplished through early, comprehensive planning for these parts at the very beginning of the program. Logistics Specialist involvement in the IPT during the concept and design phase of a program assures that lengthy and costly support requirements, after the system, product or process is deployed, is considered in every design and development decision. Their contribution to the marketing research effort normally focuses on how effectively can the proposed commercial spare parts meet the long-term logistics requirements. They must research: the length of time the commercial spare part will be manufactured; how the source plans on supporting the item in terms of replacement parts, service, upgrades, product improvement, etc.; warranties; inventory management; packaging and distribution; and any specialized disposal requirements.

Market Research Results

Market research should provide a comprehensive description of the available commercial items, along with the respective merits and shortcomings of each.

TOOLS USED IN EVALUATING THE PRICE OF COMMERCIAL ITEMS

What is Price Analysis?

Price analysis is the process of examining and evaluating a price to determine if it's fair and reasonable. Price analysis looks at the total bottom line price and compares it to other prices for the same or similar items to determine reasonableness. It is important to understand that the price must only be considered in the context of the situation surrounding the total buy to make a fair and reasonable decision. Critical things to understand as part of a sole-source pricing determination are: ordering lead times, volume discounts, most favored customer discounts, inventory management, distribution options, quality gradations, upgrade options, product improvements, and market circumstances.

Historical Trend Analysis

Prices for individual commercial items are usually published in catalogues, price lists and/or electronic catalogues. Pricing changes for items are usually made on a monthly, quarterly or annual basis. This information is available in public libraries, inventory control point databases, or program documentation.

Whenever you consider using historical prices to analyze price reasonableness, ask the following questions:

- Has the product been purchased before?
The purchase may have been made by your office or by another purchasing office.
- What was the historical price?
You can obtain price information from purchase files, computer data files, or manual inventory item records.
- Was the historical price fair and reasonable?

For a historical price to be useful in determining the reasonableness of an offered price, you must know that the historical price was fair and reasonable. Be careful! It is not uncommon to review an item's purchase history and find that no base other than the last price paid has been used for years to determine price reasonableness. In one study, the entire pricing histories for several items were reviewed and analysts found that for every acquisition except the first, the determination of price reasonableness was based on the last price paid. Analysts also found that the first acquisition was a multiple-item acquisition and while there was an analysis of the reasonableness of the overall acquisition price, no one ever examined the reasonableness of individual item prices. In other words, for years contracting officers found prices reasonable based on an arbitrary decision made during the first acquisition.

Also, when comparing prices, you must attempt to account for any factors that affect comparability. The following factors deserve special consideration because they affect many price analysis comparisons:

- Market conditions
- Quantity or size
- Geographic location
- Purchasing power of the dollar
- Extent of competition
- Technology
- Government unique requirements

Market conditions change. The passage of time usually is accompanied by changes in supply, demand, technology, product designs, pricing strategies, laws and regulations that affect supplier costs, and other such factors. An effort to equate two prices, separated by five years, through a simple inflation adjustment may not be successful. Too many characteristics of the market are likely to have changed. Do not stretch data beyond their limits.

Remember, when you do historical trend analysis, you must adjust for inflation. Inflation undermines comparability by eroding the real value of money. Because prices over time are expressed in the same currency (dollars and cents), the denominations must have comparable purchasing power if comparison is to be meaningful. You can normally use price index numbers to adjust for the changing value of the dollar over time.

For detailed information on calculating price index adjustments go to the Federal Acquisition Institute Internet Address: <http://www.gsa.gov/staff/v/guides/Vol2-97.pdf>, Contract Pricing Reference Guide, Volume II, Chapter 1

Cost Estimating Relationships

Cost estimating relationships (CERs) are used to develop parametric estimates or rough yardstick estimates. A CER is a formula for estimating prices based on the relationship of past prices with one or more product physical or performance characteristics (e.g., dollars per pound or dollars per horsepower). Whenever you can relate item price with the value of one or more physical or performance characteristics, you can use the relationship to estimate the price of a similar product. For example, builders commonly estimate the price of a planned building by multiplying the number of square feet in the building by an estimated cost per square foot. This technique is extremely useful when trying to establish price reasonableness for a sole-source item.

“Best Value” verses “Cheapest Price”

The following charts illustrate the concept of “best value” versus “cheapest price.” If you looked only at only the price of Part Number 5987 in 1998, you would think that \$531.93 (after being adjusted for inflation) is a better price than Part Number 1663 listed at \$830.45 (after being adjusted for inflation)(see chart 2). It is not until you complete the analysis that you discover that the reason the price of Part Number 1663 jumped in 1996 was because they improved the quality of the part that resulted in the mean time between failures doubling. Therefore, fewer parts were required and “best value” price is the \$850.00

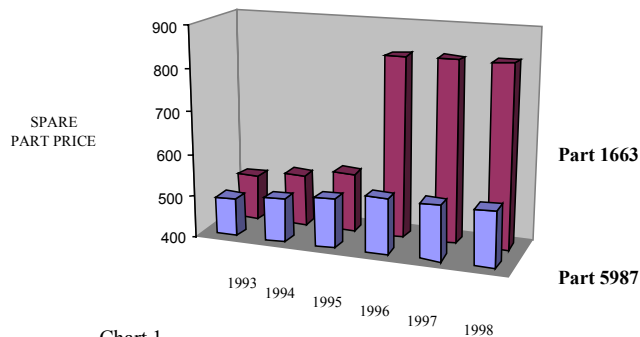


Chart 1

Chart 2

Part #1663						
Year	1993	1994	1995	1996	1997	1998
Catalogue Price	495.63	510.96	524.60	805.54	830.45	850.00
Adjusted to 1997 Dollars (Adjusted for Inflation)						
Adj Part Price	510.50	524.25	539.29	829.70	830.54	830.45
Inflation Factor	3.0%	2.6%	2.8%	3.0%	2.3%	

Part #5987						
Year	1993	1994	1995	1996	1997	1998
Catalogue Price	475.63	489.90	502.64	516.71	532.21	544.45
Adjusted to 1997 Dollars (Adjusted for Inflation)						
Adj Part Price	489.90	502.64	516.71	532.21	532.21	531.93
Inflation Factor	3.0%	2.6%	2.8%	3.0%	2.3%	

Chart 3

Projected Requirement Based On Mean Time Between Failures			
Part #1663		# of Items	
Year	Catalogue Price	Required	Price
1998	\$850	500	\$425,000
1999	\$876	1000	\$875,500
2000	\$902	500	\$450,883
TOTAL PRICE OVER THREE YEARS			\$1,751,383

Part #5987		# of Items	
Year	Catalogue Price	Required	Price
1998	\$544	1000	\$544,450
1999	\$561	2000	\$1,121,567
2000	\$578	1000	\$577,607
TOTAL PRICE OVER THREE YEARS			\$2,243,624

"BEST VALUE" PART #1663

Variations in Quantity

Variations in quantity can have a significant impact on unit price. A change in quantity can have an upward effect, a downward effect, or no effect at all.

In most cases, larger supply acquisitions command lower unit prices. Where economies of scale are involved, that should be the case. However, economies of scale do not always apply.

- Increases in order size beyond a certain point may tax a supplier's capacity and result in higher prices.
- Market forces may impose opportunity costs on a supplier which result in higher unit costs for greater volumes. For example, if the price of oil is expected to increase 20 percent over a 12-month period, a supplier may choose to withhold a portion for a sale at a later date when the price is higher. In such a market, the effect of purchase quantity on price may not be as expected; at some point, increases in volume will result in higher unit prices as the supply of the lower priced oil is exhausted.
- Finally, if a price comparison is based on standard commercial items that are produced at a regular rate, variations in quantity may have no effect at all.

A meaningful comparison of prices requires that the effect of volume on price be accounted for. The best way to do this is to select prices for comparison based on equal volumes. If that is not possible, examine the specific suppliers and the nature of the market at the time of the purchase.

Independent Government Estimates (IGE)

As the name implies, an Independent Government Estimate is an estimate made by the Government. Every IGE should address:

- *How was the estimate made?*
- *What assumptions were made?*
- *What information and tools were used?*
- *Where was the information obtained?*
- *How did previous estimates compare with prices paid?*

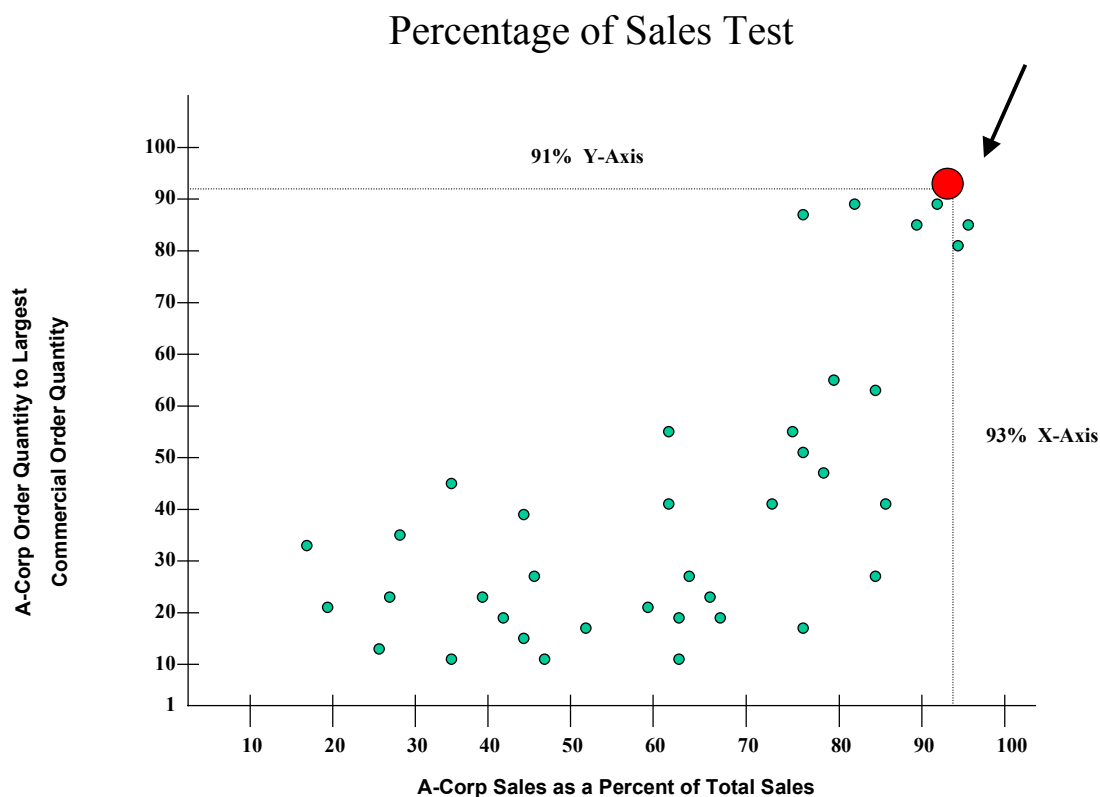
For detailed information on IGE go to the Federal Acquisition Institute Internet Address: <http://www.gsa.gov/staff/v/guides/Vol2-97.pdf>, Contract Pricing Reference Guide

Percentage of Sales Test

When the Government is purchasing commercial items from a sole-source, the amount of sales of an item to the Government versus the amount of sales to the general public can become a critical evaluation factor. If an item has a reasonable distribution between Government and the general public, usually

market pricing pressure adequately controls prices. However, if the Government becomes the only, or majority buyer, then the price should be more closely scrutinized for reasonableness.

Percentage of Sales testing is a matter of plotting points on a graph. On the Y axis, you plot the Government quantity to Commercial Order quantity ratio (Government purchased five thousand circuit boards. General Public purchased five hundred. The Government bought ten times the amount of this item than the General Public and accounted for 91% [5000/5500] of the sales. Therefore, the Y axis point is 91%) On the X axis, you plot the Government sales as a percent of total sales (Government bought 25,000. The General Public bought 2,000. Therefore, the Government bought 93% [25,000/27,000] of the total sales.) This point will look like this:



Recurring versus Non-Recurring Considerations

Most sources recover the “up-front” non-recurring costs of research, design, development and start-up costs plus the recurring costs of manufacturing, raw materials, labor, quality assessments, packaging, shipping for each commercial item over the projected life-cycle of the item [e.g. projected number of items to be manufactured is 5500 at a cost of \$1.2 million, or, \$218. per item (\$1.2M divided by 5500), non-recurring costs per item estimated at \$150. and recurring costs per

item is projected to be \$68. The price listed in the catalogue is \$261. This means they made a 16% profit (Sales price \$261 minus Non-recurring & Recurring cost \$218. = \$43. Profit. $\$43/\$261 = 16\%$.) This can be considered a fair and reasonable price in the commercial marketplace.

However, when evaluating a price for a commercial item it is important to consider whether the source has recovered all of the non-recurring cost previous to your acquisition. This is especially true if the commercial item you have exceeded the projected total life-cycle of the item. If this is true, then a fair and reasonable price for the above item would be around \$79.00 per item versus \$261 per item (Recurring cost \$68. + 16% Profit of \$11. =Total \$79.)

If the source is unwilling to provide a breakout between non-recurring and recurring, then assessing the average non-recurring and recurring on other similar items that the Government does have access to this type of data is advisable.

Spare Parts Breakout

When the Government finds itself in a costly sole-source position on the acquisition of spare parts, an analysis should be performed to assess whether a particular spare part, or, a family of spare parts, should be “broken-out”. Spare Parts Breakout is intended to save the Government money through creating competition, or, finding an alternate source for purchase of spare parts. To create competition or find a second source, the Government must have enough technical data to create a solicitation. This normally requires:

- Purchasing the Rights to Use the Commercial Item's Technical Data Package. The Government can generally purchase limited data rights to technical data (drawings, raw material requirements, component parts, etc.) from a sole-source. The source usually limits the Government's use of technical data to the solicitation of alternate Government sources, only. In addition, the sole-source normally requires the Government to limit the alternate source's use of the technical data to Government manufacturing efforts. The intent is to limit the alternate source to only Government work, therefore, that source cannot compete with the sole-source in the commercial sector. This is especially true on parts that have a high volume of sales to the source's commercial customers.
- Reverse Engineering. The Government can “reverse engineer” the spare part. This is where the Government's engineers, or a team of Government and industry engineers: dissect the spare part; analyze all of the materials, components and sub-components; create the technical drawings; capture the performance requirements; state the minimum form, fit and function of the part; and capture all the information in a technical data package. This technical data package becomes part of the solicitation's Statement of Work.

(To see Reverse Engineering: Command-wide Practices, Sample Formats & Software Tool Descriptions; 29 Mandatory Documents – DFARs, DoD, Army & Air Force; plus 35 Discretionary documents go to Internet address: www.deskbook.osd.mil and search on “Reverse Engineering”.)

Serious consideration must be given to the cost effectiveness of this approach. The purchase or creation of the spare part's technical data can be technically challenging, be time consuming and cost a lot of money.

Summary

Evaluating the price of commercial items in a sole-source environment is challenging. This instructional guide gives you relevant information to consider before you make a “price reasonableness” determination on a sole-source commercial item. However, this guide only provides high-level insight into the different tools you can use to evaluate commercial items. Please take 30 minutes to view the video that is available to you the Under Secretary of Defense for Acquisition and Technology Website <http://www.acq.osd.mil/> or, by requesting a video be mailed to you through dacrr@acq.osd.mil.

Also, there are many, many excellent sources of addition training available to you. The attachments provide an array of providers for your consideration. The Office of the Deputy Secretary of Defense (Acquisition Reform) encourages you to sign-up for this excellent training. Remember, we are relying on you to use the skills you learn to help the entire acquisition community be “faster, better and cheaper!!”

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Cherokee Information Services, Inc.
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with Ashby & Associates, Inc.

In cooperation with
Office of the Deputy Undersecretary of Defense (Acquisition Reform)
Under Contract No. DASW01-98-M-0698

APPENDIX A – ADDITIONAL RESOURCES PART 1

INTERNET-BASED RESEARCH

Welcome to



Please select one of the following:

- ✎ [IMART - The Internet Market Research Tool](#)
- ✎ [Market Research Tutorial, Training & Information](#)
- ✎ [Links to Search Engines & Helpful Sites](#)

<http://www.imart.org/>

Topics

- [Introduction to Market Research](#)
- [Market Surveillance](#)
- [Statement of Need](#)
- [The Market Research Team](#)
- [Types of Market Information](#)
- [Acquisition Histories](#)
- [Collecting Market Data](#)
- [Evaluating Market Research Results](#)
- [Market Conditions and Prices](#)
- [Preparing Solicitations and Contracts](#)
- [Compiling Information and Documentation](#)
- [Using the I-mart Market Research Tool](#)

Address  <http://www.imart.org/links.html> Links



You may link directly to a single source of information by clicking on that source's logo below.



The Commercial Advocates Forum assists government buyers by providing them with tools and techniques to implement the statutory preference for commercial item acquisitions. Sponsored by DoD, GSA, NASA and the State Department, the Forum's purpose is to disseminate information to government buyers, to enable exchanges of questions and answers; to share best practices and lessons learned and to provide feedback on new initiatives, policies, rules, and pending legislation.



Welcome to the premium services area of NAPM's Web site. NAPM Online Gold™ showcases valuable products and services designed to meet the special needs of purchasing and supply management professionals. NAPM Online Gold™ is constantly expanding with new selections. Visit often and watch us grow!

<http://www.napm.org/public/catalog/index2.html>



<http://www.email.dla.mil/index2.htm>



Internet. The word conjures up both excitement about the future and fear of the unknown. For many, the Internet represents the possibilities of new ideas, technologies and gadgets. For others, it summons that uneasy feeling brought on by change. Regardless of how the Internet moves you, it's here, and many believe it's here to stay.

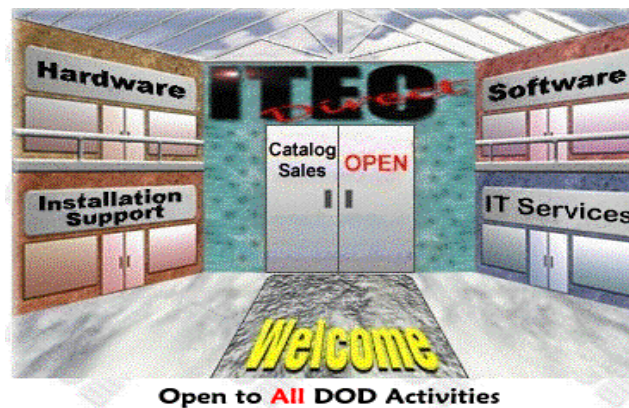
Opportunity. At GSA, we see the Internet as a golden opportunity to improve ourselves by bringing our products and services closer to you - our customer. Because of our desire to bring the best to our customers, we have created the GSA Advantage!™ On-line Shopping Service.

Access to a World of Products and Services. The GSA Advantage!™ On-line Shopping Service is an Internet acquisition solution for the entire federal government. For many years, GSA has been the provider of millions of quality goods and services to the federal government. Through the wonders of the Internet, you can now have access to a world of products and services, including the capability to order directly from your desktop.

<http://www.fss.gsa.gov/aboutadv.html>



<http://www.hanscom.af.mil/Orgs/Spo/AVC/Cstore/>



<http://itec.part.net/itec.htm>



<http://www.nib.org/catfront.htm>

APPENDIX B – ADDITIONAL RESOURCES PART 2

DEFENSE ACQUISITION UNIVERSITY COURSES THAT INCLUDE TECHNIQUES TO EVALUATE PRICES OF COMMERCIAL ITEMS



***WHAT IS DAU?** DAU is an organization established by Congress in 1990 to consolidate and integrate education and training for more than 110,000 people in the Defense Acquisition Workforce. The consortium member schools provide more than 85 acquisition courses to entry, intermediate, and senior level civilian and uniformed personnel to allow them to attain certification in one or more of the 11 defense acquisition career fields. Courses are developed and delivered by 12 DoD educational institutions and by contractors to DAU.*

<http://www.acq.osd.mil/dau/courses.html>

List of courses containing training on how to evaluate the price of commercial items:

Fundamentals of Contract Pricing
(CON 104)
Main Focus on Commercial Items

Intermediate Contracting
(CON 202)

Intermediate Contract Pricing
(CON 204)

Provisioning
(LOG 205)

Advanced Contract Pricing
(CON 235)

Intermediate Systems Acquisition
(ACQ 201)

Simplified Acquisition Procedures
(CON 237)

NOTE: DOD Equivalent Courses are
offered as alternatives to the above:

www.acq.osd.mil/dau/appf.html

APPENDIX C – ADDITIONAL RESOURCES PART 3

FEDERAL ACQUISITION INSTITUTE ON-LINE UNIVERSITY



The Federal Acquisition Institute offers an On-Line University to deliver learning opportunities through various media using both self-paced courseware and live instructor led classrooms - all in real time, delivered to your desktop. It also serves as an on-line resource for information access and performance support. Used properly, the FAI On-Line University will become an invaluable resource and increase your knowledge, skills, and abilities in the areas of acquisition and contracts management.

<http://www.gsa.gov/staff/v/training.htm>

<u>FAI OnLine University</u>	<ul style="list-style-type: none"> • Register with FAI, visit the Campus, take the training portion of the COR Mentor, Post a Message on the New Student Orientation Bulletin Board System, and other Features
<u>Procurement Curriculum.</u>	<ul style="list-style-type: none"> • <u>Curriculum Information and Material</u> • Curriculum <u>Update Page</u> • <u>Draft Introduction to Contracting</u>
<u>Certification Workbooks</u>	<ul style="list-style-type: none"> • <u>Contract Specialist Workbook (Current edition)</u> • <u>(Draft) Contract Specialist Workbook - FASA/FARA compliant</u> • <u>(Draft) COR Workbook</u>

PROFESSIONAL ASSOCIATION

SEMINARS



Updated 3/5/98

New!! Shop online at the newly opened NCMA Solution Store, a convenient and user-friendly virtual store with the entire NCMA Educational Products Catalog in a searchable online database.

The quickest and easiest way to receive information on this subject is to call NCMA's automated **Fax-on-Demand** service (888/592-NCMA) and request document

- 601 - Product Price List, and
- 602 - Order Form.

National Educational Seminar
Commercial Item Acquisition
Cost/Price
Analysis Seminar

FAR Part 12
Commercial Item Pricing Training
Contracting
For Commercial Items & Services

http://www.ncmahq.org/seminar_form.ht

Educational Products & Seminars

Seminar Catalog

Search the NAPM Seminar Catalog for programs that address your needs today. The catalog features over 40 unique seminar titles and has been designed so that you can search by keyword or topic, title, month, year or state. We've got something for everyone including fundamental programs for those of you new to purchasing or advanced programs for the more experienced purchasing professional. Our topics include everything from cost improvement to negotiation skills and outsourcing to strategic management issues. NAPM seminars address challenges and topics facing purchasing and supply management professionals employed both in the manufacturing and nonmanufacturing sectors.

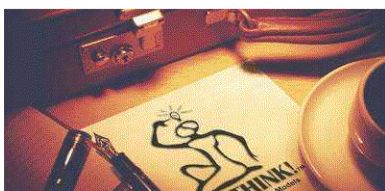
We look forward to hosting you during one of our programs. Come see what makes NAPM the leader for education in the purchasing and supply management field!

Using Cost/Price
Analysis Techniques

Fundamentals of Purchasing: Building
Blocks of World Class Professionalism

<http://www.napm.org/public/catalog/index2.html>

OFF-THE-SHELF DECISION SUPPORT PRODUCTS



<http://aliah.com>

Aliah takes decision making and strategic planning to a higher level with advanced software for strategic thinking, decision support and decision modeling.



<http://www.expertchoice.com>

TeamEC for Windows™ is a decision-support software tool designed specifically to help groups enhance the quality of their decisions by bringing structure to their decision making process.



CRITERIUM
DECISIONPLUS

<http://www.infoharvest.com/Infoharv/products.htm>

Criterion Decision Plus supports users in structuring and analyzing complex decisions between alternatives and involving multiple criteria.



<http://www.ventana.com/>

[GroupSystems](#) is a suite of team-based, decision support software tools that shorten the cycle time for strategic planning, product development, problem solving, and other business processes.



<http://www.dsr.com/fedselect/>

FedSelect™ is a client-server, relational database software that automates the process of evaluating competing proposals leading to source selection/contract award decisions.

APPENDIX F – ADDITI

NEGOTIATION SEMINARS/COURSES



<http://www.karrass.com/course.htm>

The Karrass seminar is packed with the strategies, techniques, tactics, tips and skills Dr. Karrass learned, practiced and tested over the past three decades. He designed the seminar program to be practical, hard-hitting and to pay off - literally

The Negotiation Institute

<http://www.negotiation.com/mainindex.htm>

Negotiation Institute's program will explain how to prepare for any negotiation, how to isolate the facts, how to discover the vital common ground, how to ask questions that illuminate, how to interpret exactly what is being said.



THE NEGOTIATION *Skills* COMPANY

<http://www.negotiationskills.com/training>

Our mission at The Negotiation Skills Company is to help people enhance their negotiation skills to increase their proficiency, efficiency, and satisfaction with the process of



The Program on Negotiation at Harvard Law School

<http://www.law.harvard.edu/Programs/PON/>

The Program on Negotiation at Harvard Law School, a consortium of Harvard, MIT, and Tufts University committed to improving the theory and practice of negotiation and dispute resolution

Tarragon courses

<http://www.tarragon.com.au/nfapo.html>

Negotiating is usually thought of as a high level skill which is externally focused. However, it is not just professional or political negotiators who need excellent negotiation skills. The ability to negotiate is essential for everyone to enable the smooth operation of an organization.
